

PUBLIC POLITICAL CAPITAL FOR ECONOMIC DEVELOPMENT¹

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October 2016

I. An economist's appreciation of political capital

What are good ways for people to live together? This fundamental question motivates those of us who work in economics and other social sciences, as well as those whose work is devoted to any of the great religious traditions in the world. As an economic theorist, my job is to develop new analytical models that can help us to see more clearly how the structure of social institutions can affect people's behavior. Like any scientist, I begin with a fundamental faith that events happen in the universe according to predictable patterns, and that our minds should be capable of understanding these patterns, if we can just learn how to see them.²

I have described myself as an economic theorist, but my work in game theoretic modeling really puts me somewhere between economics and political science. I believe that the wealth of any nation ultimately depends on the quality of its government and its distribution of power. You know that many economists, including some famously from Chicago, see strong economic growth as depending primarily on private investment, which they would encourage by strictly limiting the power of government. But private investment depends on a system of law and order which ultimately depends on political leadership. A prosperous community also needs investments in public goods, such as transportation infrastructure, as well as public safety, and such investments must be controlled or regulated by government.

Thus, where other economists have focused on private investment as the key driver of economic development, I would argue that economic development ultimately depends on political leadership, specifically on the supply of potential leaders who have good reputations for

¹ This is the text of a talk prepared for delivery at the 5th Colloquium on Christian Humanism in Economics and Business, at the Konrad Adenauer Foundation, Berlin, on October 24, 2016. I am grateful to Martin Schlag for the invitation to speak at this meeting. I am also deeply indebted to Jean Ensminger for guidance and insights into the problems of political reform in Kenya.

² Economic theorists like me tend to focus on models which assume (1) that the human welfare which we care about is defined by the aspirations of individuals, and (2) that each individual can be expected to act for the achievement of his or her own aspirations. These assumptions help us to see how better social structures can increase welfare by creating incentives for people to help each other. We generally assume that individuals' aspirations are broadly defined by some given form of selfish materialism, partly because we want to avoid any suggestions that the problems of poverty can be solved by teaching the poor to enjoy their plight, or that the problems of political corruption can be solved by concentrating dictatorial power in the hands of one individual who loves justice.

exercising power responsibly, and who have proven records of spending public funds accountably in the public interest. This supply of trusted leadership in a nation can be called its "public political capital." Individuals with such good reputations can expect to serve their communities in responsible positions of power as long as they use that power to serve the public well, and they can be trusted to do so because they should not want to lose the privileges of such a career. But communities which lack such trusted leaders will be impoverished by a scarcity of essential public goods, because nobody can be trusted to manage public resources, and we should expect that any resources sent to help such communities will be largely stolen.

So the vital question is: how can a nation increase this public political capital when it is scarce? My response is that autonomous institutions of local government can be the best source of such trusted democratic leadership for a nation.

This point needs much emphasis because there can be powerful forces that favor centralization even when it harms a nation's welfare. National political leaders have a vested interest in centralizing power more narrowly around themselves.

In a new democracy, an expressed popular mandate enhances the authority of elected national leaders, who may then have greater ability to suppress the autonomy of local political institutions. Thus, when democracy is first instituted only at the national level, the result can be an increased centralization of power, as history has shown since the French Revolution.

II. Summary of the theory: Democratic decentralization encourages better leadership³

Successful democracy requires more than just elections. Even with free elections, a corrupt political faction could win re-election from the voters and maintain its grip on power if the voters believed that other candidates would not be any better. For each elective office, democratic competition can effectively provide incentives for better public service only when voters can identify two or more qualified candidates with good public reputations. When such trusted leadership is lacking, democracy is inevitably disappointing. For a successful democracy, this public political capital must be more than is needed to fill all elected offices.

When locally elected leaders have clear administrative and budgetary responsibility for the successes and failures of local government, then those who succeed will enlarge the nation's vital supply of popularly trusted leaders. When a responsible elected official in local

³ The theoretical discussion in this section is formalized in *Myerson* (2006). See also *Myerson* (2015a).

government has hope of running for a higher office, this aspiration can motivate greater efforts to earn a better record of public service. Thus, the effectiveness of democratic competition is sharpened by the existence of different levels of elected offices with autonomous responsibilities, which can form a ladder of democratic political advancement that effective leaders can climb from local politics to provincial and national politics. For an inclusive political system, the lowest of these local offices should be open to the competitive entry of people in any community who have earned the trust of their neighbors.

In a centralized regime, however, the system of political advancement can have the opposite effect of inhibiting the development of public political capital, because a local official who developed a better popular reputation could be considered a potential threat to the incumbent national leader. So where local officials depend on presidential appointment, not on local popular approval, the advancement of a local official may depend on his not serving the people too well.

Thus, I would suggest, if voters feel disappointed at the quality of their national political alternatives then, in the long run, a remedy may be found in responsible institutions of democratic local government. In recent years, we have seen several examples of promising new national leaders elected after serving responsibly in local government, such as of Joko Widodo in Indonesia or Narendra Modi in India.

The successful establishment of strong competitive democracy at the national level in America after 1788 depended on the large supply of potential candidates with proven records of public service in the 13 former colonies. Throughout American history, competitive politicians have climbed a ladder of democratic advancement from local to national office.⁴ A fundamental problem in American politics this year is that, deviating from this long tradition, many voters have turned to a candidate for President who has never proven his ability to serve responsibly in any lower public office.

Constitutional systems that devolve a share of power to autonomously elected local governments were once rare outside Europe and America. The spread of responsible local democracy to nations in all continents has been one of the great under-appreciated changes in our time. But the development of responsible local governments has been slowest in Africa, the poorest continent. Let me focus now on one country in Africa where these issues have been

⁴ See *Myerson* (2015b).

particularly salient: Kenya.

III. Questions of political decentralization in Kenya⁵

Kenya became independent in 1963 with a constitution that included elected regional governments, but the national government under the first President Jomo Kenyatta moved rapidly to centralize fiscal authority and eliminate the autonomous regional governments. At the time, many Kenyans viewed decentralization as an attempt by colonialists to exacerbate ethnic divisions among them. Africans under colonial rule had direct contact with bureaucratic national agencies of European governments but not with the decentralized subnational levels of domestic politics on which these European governments were based. So it is not surprising that, after independence, many Africans might have viewed centralized national bureaucracy as a "modern" way to integrate national power. Of course, these arguments for total centralization of power conveniently fit the interests of the new national leaders.

However, several decades of corrupt government under a centralized presidential regime changed people's minds in Kenya. In this period, even when the popular vote could decide a competitive presidential election, the result seemed to only transfer power from one part of the corrupt national elite to another. The only credible differences between candidates seemed to be in their distribution of corrupt patronage among different ethnic groups, not in the overall extent and cost of such corruption.

Contrary to expectations, the centralized presidential system actually tended to exacerbate ethnic divisions. The President would cultivate lower-level politicians to help mobilize popular support, but a politician who developed a good reputation for serving people of all groups in Kenya could be seen as a potential future rival for the President's position. The President would not want to empower anyone who could develop a better reputation for serving the nation at large. It would be safer for the President to cultivate a politician who was narrowly identified as an advocate for one ethnic group. Thus, ethnic identities tended to assume primary importance among those who exercised power under the President.

Popular demand for constitutional reform grew and become irresistible in the post-election violence of 2008. Devolution of power to local governments was seen as an essential part of a system that could curb abuse of power by central elites. The new 2010 Constitution

⁵ See *Ghai* (2008), *Branch* (2011), *Khaunya, Wawire, and Chepng'eno* (2015), and *Cornell and D'Arcy* (2016).

created 47 county governments, each under a locally elected governor and county assembly, and the law guaranteed that at least 15% of the national revenue must be distributed to the county governments according to an objective formula.

Remarkably, after the first governors were elected in 2013, they joined together and successfully lobbied for more than doubling the counties' share of the total public budget, to 32% of the total public budget, which gives Kenya today a decentralization of public financial resources that is similar to many successful nations in Europe and North America. So the first lesson from Kenya's reform has been that institutions of decentralized democracy can become politically robust once they have been guaranteed some minimal share of power.

The decentralization reform has raised hopes of better public services from county governments with their local accountability. Objective formulas for determining county budgets have helped to create a more equitable distribution of public spending across Kenya. Previously, the home region and ethnic group of the President were seen to benefit much more from public spending, and ethnic tensions were heightened by an understanding that national politics was a winner-take-all game under the centralized presidential system. Decentralization has increased the number of ethnic groups who now feel a stake in the power structure. Only a small fraction of Kenyans belong to ethnic groups that do not have a governor of their group.

But now there are serious concerns about county governments favoring the governor's ethnic group over other minorities within the county, and many county governments have seemed even more corrupt than the national government. Good fiscal controls may be harder to implement in the smaller offices of local government, and massive corruption by governors has been reported by the media and the national auditor-general. Such reports are disturbing but contain a germ of hope that national officials may have less political incentive to suppress evidence of corruption when it is in autonomous county governments.

So Kenyans today see a complex mix of benefits and costs from their experiment in democratic decentralization. Certainly devolution would not seem very beneficial if it merely moved corruption from one presidential palace to 47 governors' mansions, to an entrenched oligarchy of governors. My argument here, however, is that federal decentralization can have one further long-run benefit that has not yet been realized in Kenya: that the transfer of some power to county governments can, in the long run, help Kenyans to get a better national government.

When power in Kenya was concentrated in one elected office, the presidency, it was easy for the small number of recognized national leaders to maintain a norm of not disturbing the concentration of corrupt benefits in the small national elite. In contested presidential elections, challengers could talk about reducing corruption, but voters found no reason to trust that any of them would actually do it. But now when a substantial share of power has been devolved to 47 autonomous governors, the chances are much greater that some of them will begin to develop a reputation for spending public funds responsibly to benefit the public. In particular, a governor who hopes to run for President would be positively motivated to develop a record of better public service. Thus, even if most county governments are more corrupt than the centralized presidential regime was, still the devolution of power may help to give Kenyans a better national government, when good governors run for President after proving their ability to serve well at the county level.

This competitive-advancement effect can have benefits for voters in county politics also, when the hope of running for President gives governors an incentive to provide better public service. However, the hope of becoming a strong candidate for President can be a significant motivation for at most a few governors. We should still be concerned about the possibility of corrupt governors becoming entrenched in many or most counties. Such an outcome would be likely unless other potential candidates for governor can find opportunities to prove their abilities to serve responsibly in lesser offices.

Members of Kenya's national parliament have had some ability to supervise special development funds for their constituencies. These funds may seem small and redundant compared to county budgets, but they give MPs valuable opportunities to show whether they can manage public resources better than the incumbent governor.

If there were some further devolution of resources and autonomous responsibilities to the lower ward level of government, then ward leaders could also get opportunities to prove their qualifications to become competitive candidates for governor. The fact that Kenya has devolved power only to one level of subnational government seems problematic in this regard.

From this perspective, one reform worth considering may be to let county assemblies choose their county governors, under a normal system of parliamentary responsibility, instead of having governors who are popularly elected. Such a reform would increase the power of local ward representatives in the county assembly, giving them more opportunities to show how they

would use power to serve their constituents. This reform could also help to reduce the tensions of winner-take-all competition among ethnic groups in popular elections for governor. In direct elections, voters give power to an individual governor who can belong to only one ethnic group; but a governing coalition in the county assembly could include members of several ethnic groups, and the governor who is responsible to such a coalition would develop a reputation for serving all these groups. Thus, there is hope that county governments could ultimately offer Kenyans a supply of candidates for national leadership who have worked to build trust with people of all ethnic groups, not just one.

IV. Rethinking international assistance

I have argued that the key to democratic development may be to increase the supply of leaders with good reputations for using public funds responsibly to provide public services, and not just to give patronage jobs to supporters. I have suggested the term "public political capital" to denote this vital supply of trusted democratic leadership.

This goal has basic implications for international development assistance. Of course, in a humanitarian emergency, food and medicine should be delivered by anyone who can reliably get it to the people who urgently need it. But our argument suggests that, outside of such emergencies, the essential measure of success for any development project should be how it enhances the reputations of the local or national leaders who direct it.

When international assistance is channeled only through the national government, this aid becomes a force for political centralization, by providing national leaders with a source of revenue that is not dependent on local politics. In this way, international assistance can actually weaken a country's development, in spite of its donors' good intentions.

To help cultivate leadership at all levels, one may suggest that foreign assistance should be distributed among national and local governments, perhaps even to minority parties and other local NGOs, although the national government may get the largest share. We may suggest that, as a general rule, international assistance for a national government should be conditioned on its accepting donors' rights to fund also subnational governments and other auxiliary public service agencies.

Donors should also insist on transparent public accounting for all assistance funds, but this accounting needs to be directed toward the people of the country that is receiving this aid,

not the donors. When the goal is to develop reputations for spending public funds responsibly, the public must be able to learn what their leaders have spent and what this spending has achieved. Many recipients may be seen to have corruptly diverted or wasted the money, but those who do not will augment the nation's public political capital, on which its successful democratic development will ultimately depend.

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